

June 20, 2002

Council of the District of Columbia

PUBLIC HEARING ON BILL 14-700, "MOBILE TELECOMMUNICATIONS SOURCING CONFORMITY ACT OF 2002"

Testimony of Herbert J. Huff, Deputy Chief Financial Officer, Office of Tax and Revenue, before the Committee on Finance and Revenue

Good morning, Chairman Evans and members of the Committee on Finance and Revenue. I am Herbert Huff, deputy chief financial officer for the Office of Tax and Revenue (OTR). I am pleased to testify today on behalf of the Office of the Chief Financial Officer (OCFO) on Bill 14-700, the "Mobile Telecommunications Sourcing Conformity Act of 2002."

Bill 14-700 would amend Chapter 39, Title 47 of the District of Columbia Official Code to conform District law to Public Law 106-252, the federal Mobile Telecommunications Sourcing Act (MTSA). In passing the MTSA, Congress sought to provide a uniform and fair method for state and local jurisdictions to tax wireless telecommunications services and a simpler way for wireless companies to convey the tax to their customers.

District law currently requires telecommunication companies to pay a 10 percent tax on gross charges received from mobile calls originating or terminating in the District. Returns are to be filed by the 20th of each month. There are now approximately 13 companies filing returns and remitting telecommunications taxes to the District. This fiscal year to date, the District already has received \$13.5 million in gross receipts from wireless service providers. In FY 2001, this revenue totaled more than \$22.9 million.

The District could realize greater compliance if the mobile telecommunication tax were simpler to administer. The complexity of state-to-state mobile call routing, as well as "bundling" and other special services, makes it difficult to track and assign each call transaction to a specific taxing jurisdiction. A call can originate in one area and pass through and end in others. These variations increase the possibility that mobile telecommunications companies will misapply the wireless tax to the wrong jurisdiction or inadvertently charge customers the tax twice. In addition, taxes that are not consistently applied result in revenue escaping state and local jurisdictions.

Bill 14-700 would amend current District law to provide that mobile telecommunications taxes are to be billed to the customer's Place of Primary Use, regardless of where the call originates, terminates or passes through. This means the District would receive the tax revenue only when the customer's Place of Primary Use is an address in the District. The effective date of the change would be Aug. 1, 2002.

The Place of Primary Use provides a single address for state and local taxes for all wireless telecommunications services, including roaming charges from anywhere in the United States. It must be either the customer's home or business address. In addition the bill allows the District to provide the mobile telecommunication service company with an electronic database that matches street addresses, through the use of nine-digit zip codes, to the proper taxing jurisdictions. OTR is coordinating with the Multi-State Tax Commission and the Federation of Tax Administrators in efforts to develop a uniform database format for use by all states.

OTR fully supports the intent of Bill 14-700, which is to simplify and improve mobile telecommunication service taxation in conformance with the federal act. However, the proposed legislation has some fiscal ramifications for the District. First, OTR would incur some administrative and IT development costs associated with establishing the changes required by the legislation. We also believe the District may lose an undetermined amount of tax revenue, as mobile service charges that otherwise would be applied here are assigned to other jurisdictions. For example, thousands of mobile service calls are made from the District every day by people who do not live or work in the District. But under the bill's Place of Primary Use requirement, the caller's home state would receive the tax revenue rather than the District.

Mr. Chairman, as always, OTR will make the adjustments required to execute and administer this measure if it is adopted by the Council. I thank you for the opportunity to testify today. We are available to answer any questions you may have.